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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-75376; File No. SR-NYSEArca-2015-18]

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change Relating to Listing and Trading under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02 of Shares of the Vanguard Tax-Exempt Bond Index Fund

July 7, 2015

I. Introduction

On April 6, 2015, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02, the shares (“Shares”) of the Vanguard Tax-Exempt Bond Index Fund (“Fund”). The proposed rule change was published for comment in the Federal Register on April 16, 2015.³ On May 26, 2015, the Commission extended the time period in which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved.⁴ The Commission received no comments on the proposed rule change. This order grants approval of the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 74701 (April 10, 2015), 80 FR 20529 (“Notice”).

⁴ See Securities Exchange Act Release No. 75042, 80 FR 31090 (June 1, 2015).

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade Shares of the Fund under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02, which governs the listing and trading of Investment Company Units (“Units”) based on fixed income securities indexes. The Fund is a series of the Vanguard Municipal Bond Funds Trust (“Trust”).⁵ The Vanguard Group, Inc. will be the investment adviser to the Fund (“Adviser”). State Street Bank and Trust Company will serve as custodian for the Fund. Vanguard Marketing Corporation will be the distributor for the Shares.

A. Principal Investments of the Fund

According to the Exchange, the Fund will seek to track the performance of a benchmark index that measures the investment-grade segment of the U.S. municipal bond market, as described below. The Fund will invest by sampling its benchmark index, meaning that it will hold a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. All of the Fund’s investments will be selected through the sampling process, and, under normal circumstances,⁶ at least 80% of the Fund’s assets will be invested in securities held in its benchmark index. Under normal circumstances, at least 80% of the Fund’s income will be exempt from federal income taxes.

⁵ The Exchange represents that, on January 6, 2015, the Trust filed a registration statement (“Registration Statement”) on Form N-1A under the Securities Act of 1933 and the Investment Company Act of 1940 (“1940 Act”) (File Nos. 2-57689 and 811-02687). According to the Exchange, the Trust has obtained certain exemptive relief from the Commission under the 1940 Act. See Investment Company Act Release No. 27773 (April 2, 2007) (File No. 812-13336).

⁶ According to the Exchange, term “under normal circumstances” includes, but is not limited to, the absence of extreme volatility or trading halts in the fixed income markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

According to the Exchange, the Fund has proposed to use the Standard & Poor's National AMT-Free Municipal Bond Index ("Index") as its benchmark index.⁷ The Index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interest is exempt from U.S. federal income taxes and the federal alternative minimum tax ("AMT"). To be eligible for inclusion in the Index, each bond must have a rating of at least investment-grade, as determined by a nationally recognized statistical rating organization (e.g., at least BBB- by Fitch Ratings, Inc.); be denominated in U.S. dollars; and have a minimum par amount of \$25 million. In addition, to be included in the Index, each bond must have a minimum term to maturity and/or pre-refunded or call date greater than or equal to one calendar month. The following bond types are specifically excluded from the Index: bonds subject to the AMT; commercial paper; derivative securities (inverse floaters, forwards, swaps); housing bonds; insured conduit bonds where the obligor is a for-profit institution; non-insured conduit bonds; non-rated bonds; notes; taxable municipals; tobacco bonds; and variable rate debt. Each bond in the Index must be a constituent of a deal where the deal's original offering amount was at least \$100 million. Index constituents normally undergo a review and rebalancing once a month. At each monthly rebalancing, no one issuer can represent more than 25% of the weight of the Index, and individual issuers that represent at least 5% of the weight of the Index cannot account for more than 50% of the weight of the Index in the aggregate.

B. Other Investments

According to the Exchange, while under normal circumstances, at least 80% of the Fund's assets will be invested in securities held in its benchmark index, as described above, the

⁷ S&P Dow Jones Indices ("S&P") is the "Index Provider" with respect to the Index. According to the Exchange, the Index Provider is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Index.

Fund may invest up to 20% of its assets in other securities and financial instruments. According to the Exchange, examples of these other securities and financial instruments are nonpublic, investment-grade securities, generally referred to as 144A securities, as well as smaller public issues or medium-term notes not included in its benchmark index because of the small size of the issue. The Fund may invest in non-investment-grade securities, variable and floating rate securities, exchange-traded funds, hybrid instruments, Build America Bonds, variable-rate demand-preferred securities issued by closed-end municipal bond funds, and tender option bond programs. Other investments subject to the 20% limit also include U.S. Treasury futures contracts, exchange-traded and over-the-counter (“OTC”) options on such futures contracts, exchange-traded and OTC fixed income options, centrally cleared and non-centrally cleared interest rate swaps, centrally cleared and non-centrally cleared total return swaps, and centrally cleared and non-centrally cleared credit default swaps.

C. Investment Restrictions

According to the Exchange, the Fund may invest in other investment companies to the extent permitted by applicable law or Commission exemption and consistent with Section 12(d)(1) of the 1940 Act. The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser, in accordance with Commission guidance. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund’s net assets are held in illiquid securities.

The Exchange states that the Fund is classified as diversified within the meaning of the 1940 Act⁸ and that the Fund intends to maintain the required level of diversification and otherwise conduct its operations so as to qualify as a “regulated investment company” for purposes of the Internal Revenue Code of 1986.⁹

D. NYSE Arca Equities Rule 5.2(j)(3)

The Exchange submitted this proposed rule change because the Index for the Fund does not meet all of the “generic” listing requirements of Commentary .02 to NYSE Arca Equities Rule 5.2(j)(3) applicable to the listing of Units based on fixed income securities indexes. The Exchange represented that the Index meets all such requirements except for those set forth in Commentary .02(a)(2).¹⁰ Specifically, as of February 7, 2015, 33.69% of the weight of the Index components have a minimum original principal amount outstanding of \$100 million or more.

Additional information regarding the Trust, the Fund, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings, distributions, and taxes, among other things, is included in the Notice and Registration Statement, as applicable.¹¹

III. Discussion and Commission’s Findings

After careful review, the Commission finds that the proposed rule change is consistent with

⁸ The diversification standard is set forth in Section 5(b)(1) of the 1940 Act.

⁹ 26 U.S.C. 851.

¹⁰ Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3) provides that components that in the aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.

¹¹ See Notice and Registration Statement, supra notes 3 and 5, respectively.

the requirements of Section 6 of the Act¹² and the rules and regulations thereunder applicable to a national securities exchange.¹³ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,¹⁴ which requires, among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,¹⁵ which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. Quotation and last-sale information for the Shares will be available via the Consolidated Tape Association ("CTA") high-speed line. The current value of the Index will be widely disseminated by one or more major market data vendors¹⁶ at least once per day, as required by NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(b)(ii). In addition, an Intraday Indicative Value ("IIV") for the Shares of the Fund will be disseminated by one or more major market data vendors and updated at least every 15 seconds during the Core Trading Session (9:30 a.m. to 4:00 p.m. Eastern Time).¹⁷ Information regarding

¹² 15 U.S.C. 78f.

¹³ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 17 U.S.C. 78f(b)(5).

¹⁵ 15 U.S.C. 78k-1(a)(1)(C)(iii).

¹⁶ The Exchange further states that the components of the Index and their percentage weighting will be available from major market data vendors.

¹⁷ See NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(c). According to the Exchange, several major market data vendors display and/or make widely available IIVs

market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. The website for the Fund will include the prospectus for the Fund and additional data relating to net asset value ("NAV") and other applicable quantitative information. The portfolio of securities held by the Fund will also be disclosed monthly on the Fund's website.

The Commission believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange states that the Index Provider is not a broker-dealer or affiliated with a broker-dealer, and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Index.¹⁸ Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders ("ETP Holders") in an Information Bulletin of the special characteristics and risks associated with trading the Shares. With respect to trading halts, if the Exchange becomes aware that the NAV is not being disseminated to all market participants at the same time, it will halt trading in the Shares until such time as the NAV is available to all market participants. In addition, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. The Exchange represents that, if the IIV or the Index value is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV or Index value occurs. If the interruption to the dissemination of the IIV or Index value persists past the trading day in which it occurred,

taken from the CTA or other data feeds. See Notice, supra note 3, at n.17.

¹⁸ See supra note 7 and accompanying text.

the Exchange will halt trading. Moreover, trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Further, trading in the Shares will be subject to NYSE Arca Equities Rule 7.34, which sets forth additional circumstances under which Shares of the Fund may be halted.

Based on the Exchange's representations, the Commission believes that the Index is sufficiently broad-based to deter potential manipulation. As of February 7, 2015, 98.72% of the weight of the Index components was composed of individual maturities that were part of an entire municipal bond offering with a minimum original principal amount outstanding of \$100 million or more for all maturities of the offering. In addition, the total dollar amount outstanding of issues in the Index was approximately \$2.424 billion and the average dollar amount outstanding of issues in the Index was approximately \$60 million. Further, the Index is composed of approximately 10,015 component issues and 969 unique issuers, and the most heavily weighted component represents 0.27% of the weight of the Index and the five most heavily weighted components represent 0.96% of the weight of the Index. In addition, the average daily notional trading volume for Index components for the period from January 2, 2014 to December 31, 2014 was \$1,272,356,609 and the sum of the notional trading volumes for the same period was \$318,089,152,147.

In support of this proposal, the Exchange has made representations, including:

- (1) Except for Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3), the Shares of the Fund currently satisfy all of the generic listing standards under NYSE Arca Equities Rule 5.2(j)(3).
- (2) The initial and continued listing standards under NYSE Arca Equities Rules

5.2(j)(3) and 5.5(g)(2) applicable to Units shall apply to the Shares.

- (3) The Shares will comply with all other requirements applicable to Units including, but not limited to, requirements relating to the dissemination of key information, such as the value of the Index and IIV, rules governing the trading of equity securities, trading hours, trading halts, surveillance, and the Information Bulletin to ETP Holders (each as described in more detail in the Notice and Registration Statement, as applicable), as set forth in Exchange rules applicable to Units and prior Commission orders approving the generic listing rules applicable to the listing and trading of Units.
- (4) The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by the Financial Industry Regulatory Authority (“FINRA”) on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.¹⁹ The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and federal securities laws applicable to trading on the Exchange.
- (5) FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares with other markets or other entities that are members of the Intermarket Surveillance Group (“ISG”), and FINRA may obtain trading information regarding trading in the Shares from such markets or entities. FINRA

¹⁹ According to the Exchange, FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement.

also can access data obtained from the Municipal Securities Rulemaking Board relating to municipal bond trading activity for surveillance purposes in connection with trading in the Shares. The Exchange also may obtain information regarding trading in the Shares from markets or other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

- (6) For initial and continued listing of the Shares, the Trust is required to comply with Rule 10A-3 under the Act.²⁰
- (7) The Fund generally will invest at least 80% of its assets in the securities of the Index.
- (8) The Fund may at times invest up to 20% of its assets in other securities and financial instruments as described in further detail in the Notice.

This approval order is based on all of the Exchange's representations, including those set forth above and in the Notice, and the Exchange's description of the Fund.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act²¹ and the rules and regulations thereunder applicable to a national securities exchange.

²⁰ See 17 CFR 240.10A-3.

²¹ 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²² that the proposed rule change (SR-NYSEArca-2015-18) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

Brent J. Fields
Secretary

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²² 15 U.S.C. 78s(b)(2).

²³ 17 CFR 200.30-3(a)(12).